



# **OMB – Insurance & Benefits Audit Audit Report**

Issued by the  
Internal Audit Office  
September 2, 2009

**City of El Paso  
Internal Audit Office  
OMB – Insurance & Benefits Audit**

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***EXECUTIVE SUMMARY***

At the request of the Office of Management and Budget (OMB) Director an audit of OMB Insurance & Benefits has been completed. Based on the results of the audit, six (6) findings were identified to indicate internal control weaknesses within the operations of OMB Insurance & Benefits. Three of these findings are considered significant in nature, while three findings are not significant.

Listed below is a summary of the three (3) significant findings identified in this report.

1. The Administrative Services Agreement and the Business Associate Contract between the City of El Paso and Aetna have not been finalized.
2. A full and fair review of second level medical appeals is not being conducted to make a decision about the appeal in question.
3. The OMB Insurance & Benefits Policies and Procedures in place are a work in progress and have not been finalized.

Listed below is the three (3) “Other Findings.”

4. "Invoiced" retirees with United Concordia Dental Coverage are not being included in the data uploads.
5. Vendor invoices are not being adequately reviewed before payment.
6. The Health Fund and Workers’ Compensation Cash Flow Analysis Reports prepared internally by OMB Insurance & Benefits require revisions.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

## ***BACKGROUND***

The City of El Paso is a self-insured entity with a Third Party Administrator (TPA) for workers' compensation and medical benefits. The Insurance and Benefits Division of the Office of Management & Budget oversees the City's Risk Management functions which include Employee Benefits, Workers' Compensation, Safety, Property and Liability Coverage. The Insurance and Benefits Division, staffed with ten full time employees (FTE), oversees the administration of benefits for 12,355 individuals consisting of city employees, retirees, and dependents. City of El Paso employees can select voluntary medical, dental, vision, life, and disability coverage. Employees have the option to participate in a Flexible Spending Account and become members at EP Fitness at a discounted rate. Employees also have access to an employee assistance program at no cost through Deer Oaks EAP and Wellness Centers for non-emergency medical services.

## ***SCOPE AND METHODOLOGY***

The audit objectives of this audit were to assist senior management in identifying and evaluating significant risk exposures, and evaluating the organizations' governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

The audit also documented areas where inefficiencies may exist and where internal controls may be strengthened or improved. Areas audited included, but were not limited to the following:

- **Benefits Administration**
- **Medical Benefits** – To include a review of services provided and billed by Aetna to determine compliance with Contract No. 2007-097R.
- **Pharmacy Benefits** – To include a review of services provided and billed by Medco to determine compliance with Contract No. 2007-097R.
- **Dental Benefits** – To include a review of services provided by United Concordia and Safeguard to determine compliance with Contract No. 2004-193R.
- **Workers' Compensation** – To include a review of:
  - The City of El Paso's Safety Program,
  - The services provided by Claims Administration Services (CAS) to determine compliance with Contract No. 2008-092R.
- **Monitoring and Reporting**
- Safeguarding of Assets based on **Health Insurance Portability and Accountability Act of 1996 (HIPAA)** criteria

Based on a Risk Assessment of City of El Paso employee benefits; medical, pharmacy, and dental benefits and their corresponding vendor contracts were selected for review. The audit period covered the operations of Fiscal Year 2008 – 2009.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

**Finding 1**

**Aetna Administrative Services Agreement**

The Administrative Services Agreement between the City of El Paso and Aetna is still being reviewed by the City Attorney’s office and not been finalized, therefore the City of El Paso and Aetna are operating under a Letter of Understanding (LOU).

**Recommendation**

The Aetna Administrative Services Agreement should be finalized.

**Management’s Response**

Insurance & Benefits personnel have been working with the City Attorney’s Office to finalize the Aetna Administrative Services Contract. Three conference calls between Aetna and City of El Paso were held in 2009. The City Attorney’s Office has stated to Insurance & Benefits personnel and Aetna personnel that in the absence of a signed Administrative Services Contract, the proposal submitted by Aetna serves as a contract. The Annual Letters of Understanding between the City and Aetna reiterate the terms of the proposal. The City Attorney’s office has committed to assist in completing the agreement within six months.

**Responsible Party**

Bertha Ontiveros – Assistant City Attorney and Irene Morales – OMB Insurance & Benefits Risk Manager

**Implementation Date**

February 1, 2010

**Finding 2**

**Level 2 Appeals**

A full and fair review of second level appeals, involving medical judgment, is not being conducted to make a decision about the appeal in question. The City of El Paso is:

- Upholding the decision made by the Third Party Administrator (TPA) in its appeal determination,
- Not consulting with an appropriately qualified health care professional in its review of denied claims involving medical judgments in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) Rules and Regulations.

As of 7/6/2009, a total of three second level appeals were submitted to the City of El Paso for review by Aetna for fiscal year 2008/2009.

- One of the appeals was for determination as to the medical necessity of a cosmetic procedure to correct a disfigurement. The City of El Paso, upheld Aetna's decision to deny the appeal without evidence of any additional review or consultation with a health professional.
- Two appeals were administrative appeals; one contesting a network deficiency and the other the payment of a well child exam for a child over the age of seven. Both appeals were approved on a "one-time" basis by the City of El Paso.

**Recommendation**

OMB Insurance & Benefits should ensure that second level appeal reviewers provide a fair review of appeal documentation without regard to initial determination and by consulting with an appropriately qualified health care professional in its review.

### Management's Response

The City of El Paso Health Benefit Plan is a self-insured governmental plan and is not required to comply with the Employee's Retirement Income Security Act of 1974 (ERISA). There are two types of appeals – administrative and medical. The administrative appeals are usually for time sensitive filing of medical bills by medical providers and/or members. Administrative appeals will continue to be handled by the designated City staff. Medical appeals are usually for medical procedures that do not follow standard medical protocol or are excluded in the plan (elective cosmetic surgery, for example). For an additional expense to the health fund, the City can seek qualified health care professionals in the different areas of medical specialty to review the third party administrator's determination. More than one area of medical specialty would be required in order for members to receive a "fair review". However, guidelines need to be established in order to determine what the process would be if the specialist employed by the City for a Level 2 appeal contradicts, the third party administrator's recommendation. Should the City seek a third opinion? The City also has to take into consideration that the charges incurred for any medical treatment contrary to the determination of the TPA's medical staff would not be subject to reimbursement from the stop loss carrier in the case of a large catastrophic claim.

The Third Party Administrator has other protocols for the appeal process. The City will work with the Third Party Administrator as well as the City's benefit consultant to review the current process, investigate how other self-funded plans handle the appeal process and develop an appeal process that will produce a "fair review" of the appeal.

### Responsible Party

Irene Morales – OMB Insurance & Benefits Risk Manager and Monica Casarez – Benefits Supervisor

### Implementation Date

A full review of the appeal process will begin immediately. A report to Deputy City Manager Bill Studer will be completed by February 1, 2010. If necessary, any changes to the appeal process within the City's Health Plan will be accomplished during the FY11 budget process.

**Finding 3**

**Policies and Procedures**

The current OMB Insurance and Benefits Policies and Procedures in place are a work in progress and have not been finalized.

- OMB Insurance & Benefits does not have vendor specific procedures to help identify what processes are used for each of the vendors it sends payments to.
- The procedures in practice for the administration of benefit files and workers' compensation files have not been documented.

**Recommendation**

OMB Insurance and Benefits Standard Operating Procedures Manual should be finalized and disseminated to all OMB Insurance and Benefits personnel as part of their on-going training.

**Management's Response**

Insurance & Benefits anticipates a change in some of the vendors effective January 1, 2010. Vendor specific procedures to help identify process for specific vendor payments will be drafted and included with the existing Policies and Procedures to be finalized by January 31, 2010. Included in these Policies and Procedures will be a procedure for safeguarding the benefit and worker's compensation files. The door to the file room has a combination lock; the combination is provided to the Insurance & Benefits staff only. The current procedure is to have the door to the file room closed and locked between 5:00 PM and 8:00 AM. The door is open between normal working hours and the area is accessible to Insurance & Benefits staff only. The door is closed during normal business hours if there is no staff in the office during this time; for example, during fire drills.

**Responsible Party**

Irene Morales – OMB Insurance & Benefits Risk Manager, Monica Casarez – Benefits Supervisor, Seone Jones – Senior Safety Specialist, Irene Herrera – Accountant, and Steve Burman – OMB Administrative Analyst

**Implementation Date**

January 31, 2010

***OTHER FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT’S RESPONSES***

**Finding 4**

**United Concordia Electronic Uploads**

All "invoiced" retirees with United Concordia Dental Coverage were not being included in the data upload used to transmit member coverage information. However, subsequent to our initial review, the coding used for the data upload was corrected. The Internal Audit Office confirmed that the updated upload contained invoiced retirees.

**Recommendation**

OMB Insurance & Benefits should implement a review process of third party provider data uploads to ensure that uploads are complete and accurate.

**Management’s Response**

The project to identify different errors in this particular vendor file began in March 2009. The on-site ancillary representative was entering new invoiced retirees and any changes in this group manually. In working with City IT staff, the invoiced retirees are now included in the interface file to Concordia so no further manual entries are required. The recommendation by the internal audit staff was completed in August 17, 2009. The on-site ancillary representative is responsible for reviewing the error reports sent by Concordia after the file is uploaded.

In the most recent ancillary benefits request for proposal, language was included that would require the successful vendors to exchange exception information with the City after any upload of information. The use of the on-site ancillary representative to handle the exception reports will be expanded to include all ancillary vendors.

**Responsible Party**

Irene Morales – OMB Insurance & Benefits Risk Manager, Monica Casarez – Benefits Supervisor, and Luis Martinez – Ancillary Benefits Account Manager

**Implementation Date**

January 2010



**City of El Paso  
Internal Audit Office  
OMB – Insurance & Benefits Audit**

**Finding 5**

**Expenditures Review Process**

Vendor invoices are not being adequately reviewed before payment. For the period of 9/1/2008 to 5/31/2009, eight Aetna invoices and forty Medco invoices were selected for review. The following exceptions were noted:

Vendor	Exceptions																				
Aetna	<ul style="list-style-type: none"><li>Eight out of eight (100%) invoices listed fees that could not be confirmed.<ul style="list-style-type: none"><li>An average variance of 400 employees was identified between Aetna's volume numbers and the volume numbers contained in the OMB Benefit Census Reports; with Aetna billing for more employees than was listed in the Census Reports.</li></ul></li></ul> <table><tr><th>Invoice Due Date</th><th>Originally Provided Benefit Census Reports</th><th>Aetna invoice</th><th>Variance</th><th>*Revised Benefit Census Report</th></tr><tr><td>September 08</td><td>5,075</td><td>5,570</td><td>495</td><td>5,080</td></tr><tr><td>March 09</td><td>5,300</td><td>5,703</td><td>403</td><td>5,220</td></tr><tr><td>June 09</td><td>4,897</td><td>5,210</td><td>313</td><td>5,269</td></tr></table> <p>*During the course of the audit, OMB Insurance &amp; Benefits identified an error in the OMB Census Reports and made the necessary corrections. As of the September 2009 invoice, the variance between the Benefit Census Report and Aetna is down to a difference of 2 employees.</p> <ul style="list-style-type: none"><li>One of eight (13%) invoices did not have an invoice on file but was still paid.</li><li>Four of the eight (50%) invoices contained a billing rate that was not adequately supported until a request was submitted by the Internal Audit Office. The billing rate break-down provided by Aetna adequately supported the billing rate currently in use.</li></ul> <ul style="list-style-type: none"><li>A review of the 20 payments made to Aetna for claims paid during the month of May 2009 was conducted. The daily claim payment amounts could not be reconciled to the monthly "Claims Detail Report" provided by Aetna.</li></ul>	Invoice Due Date	Originally Provided Benefit Census Reports	Aetna invoice	Variance	*Revised Benefit Census Report	September 08	5,075	5,570	495	5,080	March 09	5,300	5,703	403	5,220	June 09	4,897	5,210	313	5,269
Invoice Due Date	Originally Provided Benefit Census Reports	Aetna invoice	Variance	*Revised Benefit Census Report																	
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March 09	5,300	5,703	403	5,220																	
June 09	4,897	5,210	313	5,269																	
Medco	<p>35 out of 40 (88%) vouchers listed additional fees that could not be confirmed.</p> <ul style="list-style-type: none"><li>35 vouchers contained "medicaid" fees in which the quantity billed could not be confirmed.</li><li>Three vouchers contained "client liability" amounts totaling \$340.00 for unpaid member copays. Medco bills the City of El Paso for these "client liabilities" but does not provide information regarding these members. Therefore, OMB Insurance and Benefits pays the "client liability" and does not bill the corresponding "member" for the unpaid copay.</li></ul>																				

**Recommendation**

OMB Insurance and Benefits should implement oversight procedures and a reconciliation process to ensure vendor fees and quantities are accurately billed. We are aware that reconciling every invoice would be burdensome; therefore we are not asking that it be conducted daily, but instead that the invoices be spot-checked for accuracy.

**City of El Paso  
Internal Audit Office  
OMB – Insurance & Benefits Audit**

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**Management's Response**

Insurance & Benefits staff began working on these discrepancies in the Aetna invoices in December 2008. Insurance & Benefits and IT staff started to identify programming discrepancies in the interface between the City of El Paso and Aetna. City staff also worked to identify any discrepancies in the monthly census query that is used in the comparison. In August 2009, the programming issues were resolved with both programs. An example of the City's census reports and the census on the Aetna invoice after the corrections were made follows:

EE Census Date	COEP EE Volume	EE Volume Aetna Billing	Difference
02/17/09	5220	5691	471
03/15/09	5232	5342	110
04/15/09	5243	5379	136
05/21/09	5269	5198	-71
06/30/09	5284	5210	-74
07/27/09	5236	5234	-2
08/31/09	5239	5237 (run date 8/25/09)	-2

Insurance & Benefits staff changed its monthly reconciliation procedure of the Aetna invoices in August 2009. Insurance & Benefits staff was running the internal census query on or about the first of every month. The Aetna census reflected on the billing invoice is run on the "prepared date" reflected on the invoice. The internal City census query will be run on the "prepared date" on the Aetna invoice in order to have a better comparison of the two census reports.

The monthly "Claims Detail report" contains all claims paid by Aetna on behalf of the City of El Paso Health benefit plan for any given month. The daily claim payment amounts processed by the City of El Paso to Aetna are the total amount of Aetna checks that have cleared the bank. The Aetna outstanding issues report contains a cumulative amount of Aetna checks that have not been processed for payment.

The Medco Medicaid fees are for the Medicaid, Local/State Agencies Subrogation program. Subrogation occurs when a federal or state entity pays a claim for which it is not responsible and seeks to recover the cost of the claim from the primary payer. Legally, Medicaid and other government entities, except for Medicare are payers of last resort. When Medicaid or another government entity has paid a claim that is covered by another payer-in this instance, a Medco client (the City) - the client is obligated to reimburse the government for the claim. The City has elected to allow Medco to act as the administrator for these claims. This is a common service provided by pharmacy benefit managers for their clients. In speaking with Medco, they stated that if the City of El Paso wanted a detailed listing of the members for which they reimbursed Medicaid, they would begin to send the reports on a monthly basis. They also indicated that 1% or less of their clients request these reports. The "Medicaid Fees" for FY09 totaled 4% (\$7,792.85) of the total paid to Medco in Administrative fees.

**City of El Paso  
Internal Audit Office  
OMB – Insurance & Benefits Audit**

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The “client liability” charge is for unpaid member copays that exceed 120 days. Medco bills on a quarterly basis. If the member subsequently remits payment on their own within the following quarter for an amount paid by the client and the account is in a credit status prior to billing, the system will automatically issue a credit to the clients admin invoice each quarter where applicable. The City, has requested monthly reports that would substantiate the “client liability” charges in the administrative fees. The “client liability” charges totaled .1% (\$1,690) of the total paid to Medco in administration fees.

**Responsible Party**

Irene Morales – OMB Insurance & Benefits Risk Manager and Irene Herrera – Accountant

**Implementation Date**

Aetna census comparison – August 2009. Medco – September 2009

**Finding 6**

**Health Fund and Workers Compensation Cash Flow Analysis**

The “Cash at beginning of Period” amounts being used by OMB Insurance & Benefits for the two separate Cash Flow Analysis conducted of the Health Fund and the Workers’ Compensation Fund are misrepresented by the title used.

- The balances identified are “fund” balances, also commonly referred to as net-assets, not cash balances as stated in the reports.
- The beginning balances used by OMB Insurance & Benefits do not correspond to the amounts listed in the City of El Paso Financial Statements:

<b>Fund</b>	<b>OMB Cash Flow Analysis as of June 2009</b>	<b>Combined Statement of Revenue, Expense and Changes in Fund Net Assets for month ended June 30, 2009</b>	<b>Difference</b>
Health Fund	<\$13,111,751>	<\$13,118,323>	<\$6,572>
Workers Compensation	\$8,513,325	\$8,512,441	\$884

However, subsequent to our review the “Cash at beginning of Period” amount was corrected to correspond to the City of El Paso Financial Statements but the use of the word “cash” was still utilized to refer to the analysis and balances.

**Recommendation**

The Health Fund and Workers’ Compensation Cash Flow Analysis Reports should appropriately title listed balances as “fund balances” and use balances that correspond to the amounts listed in the City of El Paso Financial Statements.

**Management’s Response**

The terminology “Cash at the Beginning of the Period” will be changed to “Fund Balance” with the cash flow statements beginning September 2009.

**Responsible Party**

Irene Morales – OMB Insurance & Benefits Risk Manager and Irene Herrera – Accountant

**Implementation Date**

September 2009

***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

***CONCLUSION***

Based on the results of this audit, OMB Insurance & Benefits needs to improve its oversight procedures and reconciliation processes over vendor payments and uploads.

- Management should ensure that vendor contracts are properly executed in a timely manner. A properly established contract or agreement sets the basis for activity that should take place between the City of El Paso and the corresponding vendor.
- Management should implement vendor specific procedures and a reconciliation process to ensure vendor fees are accurately billed and member information is properly transmitted.
- Once the Policies and Procedures have been finalized, they should be properly communicated and staff should be re-trained.

We wish to thank the OMB Department, Insurance& Benefits Section management and staff for their assistance and courtesies extended throughout this audit.

Signature on File  
Edmundo S. Calderon, CIA, CGAP, MBA  
Chief Internal Auditor

Signature on File  
Liz De La O, CIA, CGAP  
Senior Auditor

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